Culture: Why is it important?

“I Heart Audit” Conference
February 24, 2017

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Agenda

• Introductions

• What is Culture?

• Why is Culture Important?

• What does a “good” assessment of Culture look like?

• Questions
What is Culture?

“Culture is not a monolithic, homogeneous entity within an organization. Each company has microcultures and macrocultures.” (IIA, 2016a)

- **Corporate Culture** – Corporate culture refers to the norms and values that drive behaviors within an organization. (OCC, 2016)

- **Risk Culture** – Risk culture is a term describing the values, beliefs, knowledge and understanding about risk shared by a group of people with a common purpose, in particular the employees of an organization or of teams or groups within an organization. (IRM, 2012)

  As a subset of corporate culture, risk culture pertains to the bank’s risk approach and is critical to a sound risk governance framework. (OCC, 2016)

- **Macroculture** – The macro culture is more expansive and external; it characterizes the ways an organization behaves in the marketplace with customers, stakeholders, and competitors. (IIA, 2016a)

- **Microculture** – The micro culture is, as its name implies, a smaller, more contained way of behaving; it reflects how employees and groups interact within an organization. (IIA, 2016a)
A recent 2016 study of more than 1,300 North American firms revealed the following findings regarding the importance of corporate culture:

- 91% of executives believe culture is “important” or “very important” at their firm.
- 79% rank culture as at least a “top 5” factor among all things that make their firm valuable.
- 92% of executives studied believe improving culture would increase firm value.
- 85% believe a poorly implemented, ineffective culture increases the chance that an employee might act unethically or even illegally.
- Only 16% believe their firm’s culture is where it should be.
- Key cultural values include integrity, collaboration and adaptability.

What is Culture?

- External Views of Culture
- Corporate Culture
- Internal Views of Culture
- Microculture
- Microculture
- Microculture
- Microculture
- Microculture

Risk Culture
The Cultural “Iceberg”

**Formal (Overt) Aspects**

The way we **say** we get things done.

**Informal (Covert) Aspects**

The way we **really** get things done.

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Policies and Procedures
Resources
Goals
Technology

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An organisation’s culture exists whether its leadership **intentionally** seeks to cultivate one or not.

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Source: Stanley N. Herman, TRW Systems Group, 1970
Why is Culture Important?

The [effectiveness of] corporate culture is determined not just by stated cultural values but also by whether employees act according to social norms that are consistent with those values, and whether formal structures such as governance reinforce the values.
Why is Culture Important?

Top 10 “Least” Ethical companies in 2016

Based upon what Criteria?
- Environment
- Animals
- People
- Politics
- Product

Information Source: www.ethicalconsumer.org
Why is Culture Important?

For better or worse, that which is truly important to the company will eventually reflect in its culture.

Source: *Patrick Lencioni
What is Risk Culture?

Norms of Behavior and Attitudes Relative to:

Risk Awareness
Risk Taking
Risk Management

“The norms of behaviour for individuals and groups within an organisation that determine the collective ability to identify and understand, openly discuss and act on the organisations current and future risk”

2009 International Institute of Finance,
Reform in the financial services industry:
Strengthening Practices for a More Stable System
Benefits of a strong and positive risk culture

A strong and positive risk culture has the potential to:

- **Reduce** the risk of misconduct
- **Diminish** the risk of regulatory scrutiny and the risk of related supervisory action and monetary fines, as well as diminish other potential costs, such as operating or capital charges
- **Enhance** a firm’s reputation with:
  - Customers/clients
  - Employees and management
  - Shareholders
  - Regulators
- **Strengthen** asset and earning quality
- **Promote** innovation and new product development designed to serve customers
- **Attract and retain** highly qualified talent that similarly values a strong positive culture behavior, and reduce counterproductive behavior and employee turnover
- **Protect** the life of the brand
### What does a good assessment of Culture look like?

<table>
<thead>
<tr>
<th>Cultural drivers</th>
<th>Entity level instruments</th>
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<tbody>
<tr>
<td><strong>Knowledge &amp; Understanding</strong></td>
<td><strong>Strategic objectives and key risks</strong></td>
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<tr>
<td>Clarity</td>
<td>Cascading statement and metrics</td>
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<td>Are rules, (risk) policies and procedures accurate, concrete and complete and do employees understand what is expected?</td>
<td>Related role descriptions and expectations</td>
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<tr>
<td>Visibility</td>
<td>Policies and processes</td>
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<td>Is employee behavior, e.g. the risk responses and the effects thereof visible within the organization?</td>
<td>Management information</td>
</tr>
<tr>
<td><strong>Belief &amp; Commitment</strong></td>
<td>Information moments</td>
</tr>
<tr>
<td>Involvement</td>
<td>Governance</td>
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<td>Do employees feel accountable for the proper use of risk policies and take ownership for the strategy of the organization?</td>
<td>Management messages</td>
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<tr>
<td>Role Modeling</td>
<td>Part of (management) agenda</td>
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<td>Does management lead by example and display leadership, especially regarding risk management?</td>
<td></td>
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<tr>
<td><strong>Competencies &amp; Context</strong></td>
<td>Access to expertise</td>
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<td>Practicability</td>
<td>Competency profiles</td>
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<td>Do the organization’s targets correspond to the risk appetite and overall risk strategy and are employees enabled to do what is requested of them in terms of managing risks?</td>
<td>Processes stimulating consideration</td>
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<td>Openness</td>
<td>Tools: workshops, assessments</td>
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<td>It is normal to discuss (latent) risks and is there an atmosphere of both challenge and mutual respect?</td>
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<td><strong>Action &amp; Determination</strong></td>
<td>Escalation procedures</td>
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<tr>
<td>Enforcement</td>
<td>Key Performance Indicators (KPIs)</td>
</tr>
<tr>
<td>Are employees rewarded for responsible behavior and is irresponsible behavior disciplined?</td>
<td>Root cause analyses and recommendations</td>
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<tr>
<td>Improvement</td>
<td>Aggregation of risk information</td>
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<tr>
<td>Are incidents and ‘near misses’ evaluated to determine potential risks and do employees feel they learn from their mistakes?</td>
<td>Tracking recommendations</td>
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# What does a good assessment of Culture look like?

An achievable holistic understanding of an organisation’s risk culture can be done through the following methods…

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<tr>
<th>Method</th>
<th>Appropriate</th>
<th>Adequate</th>
<th>Effective</th>
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| #1 Mechanism review | - P & P evaluated against industry standards, best practices and regulatory expectations.  
- Allows the firm to understand if policies and processes, Exist; Have clear ownership; Are Embedded into ongoing management processes and governance structures. |
| #2 Incident review (AAR) | - Review risk incidents, near misses and breaches. (“Hot Wash”; MLR). |
| #3 Survey, interviews and focus groups | - Baseline and ongoing assessment of values, attitudes, observed behaviours. |

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<th>Results</th>
<th>Does a framework exist?</th>
<th>Would it work if it were used?</th>
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<td>The use of multiple lenses provides a complete picture of where cultural issues originate – in the articulation of policy or the way in which people ultimately behave.</td>
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Questions